The discussion of effects on beneficiaries reports estimates of average benefits for various groups and of the percentages of beneficiaries in each group whose benefits would be at least 5 percent higher or lower, relative to their projected benefits under current law. For the purpose of estimating the number of gainers and losers from a plan, compared with benefits under current policy, HHS included changes in excess of 1 percent, whereas the main tables in this report only record beneficiaries as gainers or losers if their benefits are estimated to change by at least 5 percent. Consequently, the tables in the present report depict fewer winners and losers, but with their average gains and losses, of course, being much larger. In view of the number of years into the future for which the benefits are being projected, the uncertainty of the estimates, and the expectation that real benefits will be much larger in the future than they are today, a 1 percent gain or loss relative to current law benefits seems too small a range to be meaningful. 8/ Even a 5 percent "loss," relative to current law, would still result in substantial real benefit growth, although lower replacement rates.

POTENTIAL LONG-TERM EFFECTS OF EARNINGS SHARING

The remainder of this chapter discusses the effects of the two earnings sharing plans described in Chapter III. The first--Generic Earnings Sharing--would split the earnings of married couples as credits are earned; would permit surviving spouses, in effect, to add the decedents' earnings record to their own (up to the taxable earnings base) for each year of marriage; and would abolish auxiliary benefits for spouses and surviving spouses. The second--Modified Earnings Sharing--adds several provisions to this plan that would make it more generous in certain cases: sharing would occur when a couple divorced, when both spouses claimed worker benefits, or when the lesser-earning spouse claimed disability benefits, rather than as earnings were credited; both spouses would be insured for benefits if either spouse was considered insured under current law; and the special minimum benefit provision would be liberalized. Both of these plans are designed to be implemented prospectively, with the sharing of records not to begin until 1990. Thus, even in 2030 most beneficiaries would have earnings histories that reflected some years prior to the onset of earnings sharing. Consequently, proposals usually contain transition provisions.

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8. Under the Office of the Actuary's II-B assumptions in 1983, the average benefit level in 2030 would be $7,600 (in 1984 dollars), 53 percent higher than projected for 1985. The future growth rates of earnings and other variables on which benefits are based are quite difficult to predict. But even much lower growth rates would produce an average benefit several decades from now whose real value would be substantially higher than recent amounts.

In order to illustrate some of the effects of the Generic and Modified Earnings Sharing plans in the long run, members of the simulated population in 2030 were given earnings records as if sharing had been implemented in 1951--thereby simulating up to 80 years of shared records. Thus, virtually everyone would have records that reflected the rules of a plan throughout their working lives. The purpose of these estimates is to understand some of the long-term characteristics of each plan, not to portray the actual effects in a particular year of implementing such a plan. A plan that was not prospective would be very difficult to implement, because the Social Security Administration would need to obtain the beginning and ending dates of past marriages, as well as future ones. Moreover, many people nearing retirement age when it went into effect would likely incur substantial losses without adequate time to adjust their financial plans.

To depict a group that had experienced a lifetime of earnings sharing under a plan that was implemented prospectively would have required the simulation of a population to at least the year 2070. An important difference is that, under the Actuary's intermediate projections, very old female beneficiaries in the year 2030 would have had fewer years of work experience than their counterparts in 2070. Because the gains to married couples and widows from earnings sharing plans are positively associated with the number of years that the women worked in covered employment, the retrospective estimates might tend to understate their benefits (and the associated costs).

The CBO estimates indicate that, in the long run, implementation of either the Generic plan or the Modified plan would produce changes in the benefit structure consistent with several of the objectives of earnings sharing proponents: increases in the benefits of couples in which the wives had substantial work histories, relative to the benefits of other couples; increases in the benefits of widows who had substantial work histories, relative to other widows; and increases in the benefit levels of divorced women. These gains would come, in part, at the expense of reductions in the average benefits of other groups--especially other married couples and widows and divorced men--and, in part, through an increase in total outlays. The major distinction between the Generic and the Modified plans for elderly recipients is the latter's liberalization of the special minimum rules, which would increase outlays mainly by raising amounts paid to recipients with low current law benefits.

Total Costs 9/

Under the assumptions given above, if the Social Security benefit structure was converted to the Generic Earnings Sharing plan, the total benefits paid to Social Security recipients after 80 years of shared earnings records (from 1951 to 2030) would be 1.7 percent ($11 billion in 1984 dollars) higher than the amount that would be paid in the same year (2030) under current law. The Modified Earnings Sharing plan would expand total benefits--and thus costs--by 4.5 percent, which is about $30 billion (in 1984 dollars) above what would be the amount under current law.

Benefits for people age 62 and over would increase by 1.1 percent ($7 billion) under the Generic plan and by 2.6 percent ($16 billion) under the Modified plan. Larger percentage increases in benefits paid to people under age 62 probably would result from implementation of either earnings sharing plan because more people would be eligible for disability benefits. Total benefits paid to the under-62 age group would increase, relative to current law, by 7.3 percent ($4 billion) under the Generic plan and by 24.7 percent ($14 billion) under the Modified plan. The Generic plan would increase benefits paid to the nonelderly by a smaller amount in part because it would reduce benefits for disabled workers who shared with a lower-earning spouse, would eliminate benefits for nondisabled widows under age 62, would eliminate benefits for surviving spouses based on caring for dependent children, and would reduce benefits for children if the higher-earner parent died. 10/ As previously noted, the estimates for the nonelderly population are more problematic than those for the elderly population because of the difficulty of projecting the number of disabled beneficiaries.

Long-Term Effects on Beneficiaries of Generic Earnings Sharing

The effects on beneficiaries of implementing an earnings sharing plan would depend, to a considerable extent, on their marital status and their employ-

9. The cost estimates in this report are estimated changes in benefit payments only; they do not include administrative costs.

10. The estimate for the Generic plan reflects a $3 billion reduction in benefits for people under age 62 who already would have been receiving benefits under current law and a $7 billion outlay for new beneficiaries in this age group. The estimated cost of the Modified plan includes a $3 billion increase for current law beneficiaries and an $11 billion outlay for new beneficiaries.

ment history. The estimates of the effects of the Generic plan summarized in Table IV-1 illustrate the major patterns. 11/

Married Couples. Even though this plan would be a major departure from the present method of determining benefits, the majority of elderly couples in the simulated population would receive benefits similar to their benefits under current law. 12/ Among these 13 million recipient couples, the annual average benefit (in 1984 dollars) would be $16,620--about $50 (0.3 percent) less than the benefit they would have received under current law (see the first row of Table IV-1). About one-fifth of the couples, or 2.6 million, would have benefits that were at least 5 percent higher than they would have received under current law and nearly one-fourth, 2.9 million, would have benefits that were at least 5 percent lower.

The critical distinction between the couples who would be better or worse off under this earnings sharing plan is, of course, the extent to which both spouses had covered earnings. The second and third rows of numbers in Table IV-1 illustrate this result. As shown under the Generic plan, couples in which the wives worked at least 30 years would gain an average of 1.6 percent of their average benefit under current law. By contrast, other couples would lose 3.4 percent of their current law benefit, on average. About three-quarters of the couples that would gain from this plan--but only one-third of the couples that would lose--are those in which the wives worked at least 30 years. 13/

Widows. The results for widows are similar to those for married couples. The average benefit level under the Generic plan would be almost identical to the level under current policy. Over one-third of the 15 million widows in

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11. The distributions of effects by marital status that are used throughout this study are for the simulated population in the year 2030 and reflect their most recent marital status. Thus, beneficiaries who had been divorced or widowed and then remarried would be included in the "married couple" group, even though their benefits might be based in part on past marriages. For example, over 40 percent of elderly beneficiary couples in the simulated population contain at least one previously married spouse.

12. The couples referenced in the analysis, unless otherwise stated, are married couples in which both spouses would receive benefits under current law and at least one spouse is age 62 or older.

13. Examination of the effects on couples, disaggregated by the number of years that the wives worked in covered employment, indicates that the likelihood of gaining under this earnings sharing plan, relative to current law, uniformly increases with years of wives' employment; the likelihood of losing uniformly decreases.

the simulated population would be better off and about one-third would be worse off, compared with benefits under current law. Again, effects would differ by length of previous employment. About two-thirds of the widows who would gain from this plan would be women who had worked at least 30 years, whereas only about half of the widows who would lose would be in this group. 14/

Under current law an eligible widow receives, in effect, the higher of her own worker benefit or that of her husband (subject to actuarial reductions). Under Generic Earnings Sharing, she would instead add her shared earnings record to his for years they had been married and only be eligible for worker benefits. In general, this would work to the advantage of widows with lengthy work histories.

Whether a particular widow would be better or worse off would depend on the exact pattern of her earnings history, as well as that of her husband. The effect would also depend on how long she had been married to the decedent and on their ages at retirement and on her age when he died. Under the Generic plan (as well as the Modified plan), the decedent's earnings record would only be inherited for the years in which they were married. Thus, unlike current law, widows who had only been married a short time would derive few benefits based on inheriting their husbands' earnings records. The ages of the spouses would be important both because earnings are indexed to the year of first eligibility for benefits and because the 35 years of highest covered earnings of husbands and wives would be less likely to be matched if there were large differences in their ages.

One reason many widows would do worse under earnings sharing is that they would no longer gain the advantage from the current law rules on actuarial reductions for survivors that were described in Chapter II. Because widows would inherit their husbands' earnings record but would continue to receive benefits as workers, widows' actuarial reductions (if any) would be based on the age at which they retired, not their age when they become eligible for survivors' or spousal benefits. Some widows who would lose, then, would be those who retired early and whose husbands died at a relatively old age, the group that benefits most from the current rules governing survivor benefits. This difference in how benefits are actuarially reduced would become increasingly important for widows who retired early after the turn of the century because the size of the maximum actuarial

14. In addition, nondisabled widows between the ages of 60 and 61 would no longer be eligible for survivors' benefits, as they are under current law. These losses are not included in Table IV-1, because it (as with all subsequent tables on beneficiary effects) only includes beneficiaries age 62 or older.

TABLE IV-1. ANNUAL BENEFITS OF SELECTED ELDERLY GROUPS IN THE YEAR 2030 UNDER RETROSPECTIVE GENERIC EARNINGS SHARING (Numbers of beneficiaries in thousands; benefits in 1984 dollars) a/

Group	Number of Beneficiaries	Average Benefit Under Plan	Percent Change c/	Beneficiaries Who Would Gain At Least 5 % b/ Number	Beneficiaries Who Would Gain At Least 5 % b/ Average Gain	Beneficiaries Who Would Lose At Least 5 % b/ Number	Beneficiaries Who Would Lose At Least 5 % b/ Average Loss
Married Couples d/							
Total	12,880	16,620	-0.3	2,630	2,050	2,950	1,890
Wives worked at least 30 yrs.	7,830	17,310	1.6	1,920	2,080	960	1,750
Wives worked fewer than 30 yrs.	5,050	15,560	-3.4	710	1,980	1,980	1,960
Widows							
Total	15,320	9,150	-0.5	5,900	1,920	5,040	2,380
Worked at least 30 yrs.	8,210	9,990	2.9	4,030	2,080	2,510	2,420
Worked fewer than 30 yrs.	7,100	8,180	-4.9	1,880	1,590	2,530	2,340
Divorced Women with Deceased Ex-Husbands							
Total	6,400	8,560	3.9	3,490	1,800	1,700	2,480
Worked at least 30 yrs.	4,650	8,990	6.8	2,790	1,780	1,020	2,260
Worked fewer than 30 yrs.	1,750	7,420	-4.5	690	1,880	680	2,800

(Continued)

TABLE IV-1. (Continued)

Group	Number of Beneficiaries	Average Benefit Under Plan	Percent Change c/	Beneficiaries Who Would Gain At Least 5 % b/		Beneficiaries Who Would Lose At Least 5 % b/	
				Number	Average Gain	Number	Average Loss
			Other Divorced Women				
Total	2,930	7,220	16.6	2,090	1,470	100	880
Worked at least 30 yrs.	2,230	7,610	14.8	1,550	1,430	60	750
Worked fewer than 30 yrs.	710	5,980	24.2	540	1,580	30	1,140
			Widowers				
Total	3,810	10,280	6.2	1,850	1,340	240	1,770
			Divorced Men				
Total	4,360	8,800	-7.9	670	1,160	2,570	1,590

SOURCE: Congressional Budget Office simulations.

a. See the text for a description of the plan. Beneficiaries depicted in this table are age 62 or older and would account for approximately three-quarters of all beneficiaries in the simulated population.

b. The average gains (losses) are for the beneficiaries whose benefits under the plan would be at least 5 percent higher or lower than their benefits under current law in the simulation year.

c. Relative to benefit under current law.

d. Couples in which both spouses would receive benefits under current law and at least one spouse is age 62 or older.

reduction for workers, but not for survivors, will be increasing. The maximum reduction for workers after the full retirement age is raised to 67 in 2022 will be 30 percent, rather than the current 20 percent. Thus, the spread between the maximum reduction for a survivor on her deceased husband's PIA (fixed at 17.5 percent) and the maximum reduction for a worker's benefit will have widened considerably. 15/

Divorced Women. Divorced women, as a group, would gain considerably from implementation of Generic Earnings Sharing. Recall that under current law divorced women who were married at least 10 years are eligible for benefits equivalent to what they would have received had they remained married--50 percent of their husbands' benefits while the husbands are alive and 100 percent of the benefits after they die (each subject to actuarial reductions). Under the Generic plan, divorced women instead would be credited with half of the combined earnings during the years of their marriage while the ex-husbands were alive and all of the combined earnings during those years (up to the Social Security tax base in each year) after their husbands died. This procedure would, in effect, smooth out the benefit stream for divorced women, generally providing them with considerably more than they would receive under current law while their former husbands were alive and slightly more than they would receive as divorced survivors; the benefits of divorced women would still be affected by whether their ex-husbands were deceased, as under current law, but the average impact would be smaller.

The 2.9 million divorced women whose ex-husbands were alive would receive larger gains than any other major elderly group examined--their average benefit increasing by about 17 percent to $7,220. This group of women usually derive little, if any, Social Security benefits from their ex-

15. To illustrate the potential significance of the current reduction rules in the year 2030, CBO estimated the effect of making the size of widows' actuarial adjustments under current law depend on the age at which they first received any benefits, rather than on the age at which they first received survivor benefits--that is, the effect of breaking the link between survivor benefits and a widow's age when her husband died. Under this option, the average widow would have a $640 lower benefit than under current law and the average divorced woman with a deceased ex-husband would have a $310 lower benefit; 6.3 million widows and 1.4 million divorced women with deceased ex-husbands would have lower benefits than under current law. Comparing the adjusted "current law" benefits with the benefits that would be paid under the retrospective Generic plan, the average widow would gain about $600 from earnings sharing; half (8.0 million) would be better off; and one-fifth (2.8 million) would be worse off. That is, a substantial part of the estimated effects of the retrospective Generic plan reported in the text is associated with the impacts of the different actuarial reduction rules, and with the redefinition of all benefits under the earnings sharing plans examined here as "workers'" benefits.

spouses' earnings records. At most, they are eligible for 50 percent of their former husbands' benefits--less than most of them would receive based on their own earnings records. Thus, the full implementation of the Generic plan would be especially advantageous to this group. Two-thirds of the group would gain and hardly any would lose. The small number of these divorced women who had worked less than 30 years would benefit the most--with their average benefit increasing by 24 percent, from $4,810 to $5,980.

The 6.4 million divorced women with at least one deceased ex-spouse would increase their average benefit by about 4 percent to $8,560. Under the Generic plan, they would inherit their husbands' share of the earnings records for the years in which they were married. Among the women who had substantial earnings of their own, the plan would generally provide a higher benefit than most of them would receive under current law. Thus, among women in this group who had worked at least 30 years, the average benefit under the plan would be about 7 percent higher than under current law; three-fifths of these women would gain; and one-fifth would lose. But many of the women with shorter work histories would be better off under current law. On average, the 1.8 million divorced survivors with less than 30 years of covered earnings would incur a 4.5 percent reduction under this plan.

Divorced Men. The group that would bear the largest losses would be divorced men--a direct result of sharing earnings records during the years that they were married to spouses who earned less. The average benefit of these 4.4 million men under this plan would be $8,800, about 8 percent less than the $9,550 they would receive under current law. The majority of this group would lose. Most of those who would gain (610,000 of the 670,000 gainers) would be divorced men with one or more former wives who had died; they would have inherited the earnings records of these women for the years in which they were married.

Widowers. In the simulation year, there would only be about 3.8 million widowers--reflecting the shorter life expectancies of men relative to women and their greater likelihood of remarriage. Their average Social Security benefit would be $10,280, which is about 6 percent higher than they would receive under current law. Almost half (1.8 million) would gain at least 5 percent because they would be able to inherit their deceased wives' shared earnings records. A small number (240,000) would be worse off by at least 5 percent under this plan. Most of these widowers who would lose would still be sharing part of their earnings records with living former wives who had earned less than they had.

Other Elderly Groups. In addition to the approximately 13 million elderly couples and 33 million other elderly women and men depicted in Table IV-1 (and subsequent tables), there are about 5 million other couples in the simulated population in which only one spouse would receive benefits under current law and almost 7 million never-married beneficiaries.

Most of the one-beneficiary couples would be those in which the other spouses would not yet be eligible for benefits, either because they were not age 62 or had not yet retired. Most of the couples in which the wife would be the only beneficiary would gain (1.9 of these 2.2 million couples) because under the Generic plan the wives' earnings records would be replaced by half of the combined earnings histories; this would generally provide higher AIMEs and, hence, higher benefits for wives and lower AIMEs for their husbands. For the same reason, three-fourths of the one-beneficiary couples in which the husbands would be the beneficiaries would lose relative to current law (2.4 of these 3.3 million couples). These gains and losses usually would be for a short period--until both spouses became eligible for benefits.

The Generic plan would have no effect on the benefits of the never-married recipients. They would receive no spousal benefits under current law and would have no shared earnings under this plan.

Distribution by Benefit Levels. The Generic plan would also affect the progressivity of the Social Security benefit structure. In general, the Generic plan would redistribute benefits in favor of low-benefit recipients. For example, widows with current law benefits below $10,000 in 2030 (in 1984 dollars) would gain, on average, whereas widows with current law benefits above this level would lose. (More details on the distribution of each plan's effects are provided in Appendix C.)

One reason for the general progressivity of this plan (and all other earnings sharing options examined in this chapter) is the progressivity of the Social Security benefit structure itself. Because the formula for converting average earnings into benefits is designed to replace a higher proportion of the earnings of low-wage workers, lower-benefit people would gain more from the addition of a portion of their spouses' or ex-spouses' earnings to their own records.

Long-Term Effects on Beneficiaries of Modified Earnings Sharing

Most of the general patterns observed for the Generic plan are found in the analysis of the Modified plan as well. The additional protection provided by the modifications would result in some of the major groups increasing their average benefits, relative to the Generic plan; no major group of recipients would have lower benefits (see Table IV-2). As noted earlier, the total benefits paid to the simulated population, ages 62 and over, would be 2.6 percent above current law benefits, compared with 1.0 percent more under the Generic plan, largely from liberalizing the special minimum provision. 16/ The difference, expressed in 1984 dollars, is about $9 billion. About three-quarters of the increment would go to married couples. 17/ The remainder would be distributed across the other groups. Recipients whose benefits under current law are relatively low would fare best, because of the special minimum benefit provisions.

Married Couples. The average benefit level of married couples under this plan would be 2 percent higher than their average benefit under current law. Couples in which the wives had worked in covered employment for at least 30 years would have average benefits about 3 percent higher under this plan than they would under current law, while other couples would have average benefits 0.3 percent less than under current law.

The Modified plan would provide higher average benefits, more gainers, and fewer losers than would the Generic plan. Couples in which the wives had shorter work histories would receive a larger share of the increment. For example, two-thirds of the reduction in the number of couples who would lose (510,000 of the 760,000) would be among the couples in which the wives had worked less than 30 years.

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16. To confirm that the key provisions in the Modified plan for elderly beneficiaries are those that would liberalize the special minimum, a set of estimates was generated in which the Modified Earnings Sharing rules other than those involving the special minimum were used. These indicated that, without the special minimum provisions, the Modified plan would provide benefits to all major elderly groups, other than married couples, nearly identical to the distribution of benefits under the Generic plan. For married couples, the other provisions would account for about one-third of the difference between the Modified and the Generic plans: the average benefit for couples would be $16,620 under the Generic plan, $16,740 under the Modified plan without the special minimum benefit provisions, and $16,990 with these provisions. Total benefits paid to elderly recipients under the Modified plan without its special minimum provisions would be 1.5 percent above current law benefits--compared with 2.6 percent with the full Modified plan and 1.0 percent with the Generic plan.

17. Of the total, $4.8 billion would go to couples in which both spouses would receive benefits under current law, and $2.5 billion to one-beneficiary couples (providing more for couples in which the husbands were the sole beneficiaries and slightly less for couples in which the wives were the only beneficiaries).

TABLE IV-2. ANNUAL BENEFITS OF SELECTED ELDERLY GROUPS IN THE YEAR 2030 UNDER RETROSPECTIVE MODIFIED EARNINGS SHARING (Numbers of beneficiaries in thousands; benefits in 1984 dollars) a/

Group	Number of Beneficiaries	Average Benefit Under Plan	Percent Change c/	Beneficiaries Who Would Gain At Least 5 % b/		Beneficiaries Who Would Lose At Least 5 % b/	
				Number	Average Gain	Number	Average Loss
Married Couples d/							
Total	12,880	16,990	2.0	3,890	2,000	2,190	1,640
Wives worked at least 30 yrs.	7,830	17,600	3.3	2,600	2,060	720	1,550
Wives worked fewer than 30 yrs.	5,050	16,050	-0.3	1,290	1,890	1,470	1,680
Widows							
Total	15,320	9,180	-0.1	6,040	1,930	4,990	2,370
Worked at least 30 yrs.	8,210	10,020	3.2	4,100	2,080	2,480	2,410
Worked fewer than 30 yrs.	7,100	8,210	-4.6	1,940	1,620	2,510	2,330
Divorced Women with Deceased Ex-Husbands							
Total	6,400	8,630	4.7	3,590	1,850	1,680	2,470
Worked at least 30 yrs.	4,650	9,050	7.6	2,880	1,820	1,010	2,250
Worked fewer than 30 yrs.	1,750	7,500	-3.6	710	1,970	670	2,800

(Continued)

TABLE IV-2. (Continued)

Group	Number of Beneficiaries	Average Benefit Under Plan	Percent Change c/	Beneficiaries Who Would Gain At Least 5 % b/		Beneficiaries Who Would Lose At Least 5 % b/	
				Number	Average Gain	Number	Average Loss
Other Divorced Women							
Total	2,930	7,450	20.3	2,350	1,590	70	930
Worked at least 30 yrs.	2,230	7,860	18.6	1,780	1,550	40	690
Worked fewer than 30 yrs.	710	6,140	27.7	570	1,700	30	1,270
Widowers							
Total	3,810	10,290	6.3	1,860	1,350	240	1,690
Divorced Men							
Total	4,360	8,850	-7.3	760	1,140	2,450	1,600

SOURCE: Congressional Budget Office simulations.

a. See the text for a description of the plan. Beneficiaries depicted in this table are age 62 or older and would account for approximately three-quarters of all beneficiaries in the simulated population.

b. The average gains (losses) are for the beneficiaries whose benefits under the plan would be at least 5 percent higher or lower than their benefits under current law in the simulation year.

c. Relative to benefit under current law.

d. Couples in which both spouses would receive benefits under current law and at least one spouse is age 62 or older.

The more generous special minimum benefit provisions would make the Modified plan particularly valuable for couples whose benefits under current law would be relatively low. Couples whose benefits under current law are less than $12,500 would experience average benefit increases of 11.7 percent under this plan, compared with an increase of 2.4 percent under the Generic plan. Couples with higher current law benefits would do better under this plan too, but by much smaller amounts. 18/

Widows and Widowers. The effects of this plan on survivors would be quite similar to the effects of the Generic plan. The average benefit of widows would be 0.1 percent lower than their benefit under current law and that of widowers would be 6.3 percent higher. The corresponding effects under the Generic plan were 0.5 percent lower and 6.2 percent higher than under current law.

Divorced Beneficiaries. As under the Generic plan, the marital group that would benefit most from the Modified plan is divorced women, especially those whose former husbands are alive--their average benefit would be 20.3 percent above their current-law benefit. Among divorced women with deceased ex-spouses, the average benefit under this plan would be 4.7 percent above that of current law. Because of the minimum benefit provisions under the Modified plan, divorced women, in general, would gain more than they would under the Generic one (the comparable numbers under it were 16.6 percent and 3.9 percent).

Divorced men again would be the marital group that would lose the most. Under the Modified plan, their average benefit would be 7.3 percent below that under current law. A small number of them would be helped by the special minimum provisions, which accounts for the slight reduction in their average loss compared with the Generic plan.

Other Elderly Groups. The only people whose benefits would be lower under the Modified plan than under the Generic plan are a small number of couples in which the wives would be eligible for retirement benefits ahead of their husbands (that is, older than their husbands). Because under the Modified plan earnings would not be shared until the husbands claimed benefits as well, these women would receive the same benefits as they would under current law (unless they had shared with, or inherited from, previous

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18. The average increase in benefits, relative to current law, under the Modified plan would range from 0.1 percent to 3.2 percent for the other benefit categories examined; under the Generic plan, the average reductions for these groups would range from 0.2 percent to 1.0 percent (reported in Appendix Tables C-1 and C-2).

husbands). It will be recalled that under the Generic plan these women would receive benefits based on their shared earnings records, which could be higher. As a consequence, the Modified plan is estimated to provide higher benefits, relative to current law, for 1.7 million of the 2.2 million affected couples; the Generic plan would provide higher benefits for 1.9 million of them.

For analogous reasons, fewer elderly couples in which the husband was the sole beneficiary would lose under this plan than would lose under the Generic plan. The average benefit of this group under the Modified plan would be about 2 percent below the average under current law. 19/

Finally, never-married women and men would gain under this plan as a direct result of the liberalized special minimum provisions. About 900,000 of the 3.3 million women and 200,000 of the 3.4 million men would gain. All of the gainers would be people whose benefits under current law would be less than $10,000.

POTENTIAL EFFECTS OF EARNINGS SHARING PLANS WITH TRANSITION PROVISIONS

This section analyzes the potential effects of phasing in several specific earnings sharing options. Each would share earnings prospectively (beginning in 1990) and would provide benefits based on either the Generic Earnings Sharing or the Modified Earnings Sharing plan examined above (starting in 1995).

One might argue that, in the long run, the fact that many people would receive lower benefits than they would have received under current law is not necessarily a serious problem--there would be ample time for them to adjust their work and savings activities (for example, by leaving the labor force for shorter periods of time or by retiring later than they otherwise would have), and real benefits would be much higher than they are today because of expected growth in real earnings. Regardless of the long-term results of earnings sharing, in the short run some people would lose simply because the earnings records from which their benefits would be calculated would only reflect shared earnings for a part of their worklives. If benefits

19. Under the Modified plan, the average benefit would be $9,950; 510,000 would gain, relative to current law; and 1.0 million would lose. Under the Generic plan, the average benefit would be $9,000; 400,000 would gain; and 2.4 million would lose.

were to be based on shared earnings starting only five years after implementation--as specified in both plans analyzed here--earnings sharing could produce large losses for many beneficiaries in the early years. Even in 2030, most beneficiaries would not have been covered by earnings sharing for all of the years on which their AIME would be based. A later starting date for basing benefits on shared earnings records would reduce this problem but would postpone achievement of the objectives of earnings sharing.

The effects of four sets of transition provisions are analyzed below. These provisions were described in the preceding chapter and are briefly summarized here.

- Transition I would enable survivors and divorced spouses to continue to receive benefits based on current law, rather than on earnings sharing, if based on events that occurred before the plan went into effect. 20/ A declining current law benefit guarantee is also provided, although by 2030 it would have little, if any, effect on the benefits of people retiring then.

- Transition II would provide a current law benefit guarantee to survivors of workers who died before 1995, and a declining guarantee to survivors on the basis of marriages that began before 1990. A benefit guarantee for spouses' benefits would be rapidly phased out, so it would not be available to spouses becoming eligible after 2005.

- Transition III--the set of transition provisions suggested by the Technical Committee on Earnings Sharing--contains a declining benefit guarantee intended to provide the least losses to low-benefit recipients. It was designed to accompany the Modified plan.

- Transition IV would guarantee 100 percent of current law benefits to all couples and to all unmarried beneficiaries. It was designed to accompany the Generic plan.

20. Current law survivor benefits would be guaranteed to survivors of marriages that began prior to 1990 and to survivors of spouses who died before 1995. Current law spousal benefits would also be guaranteed to divorced spouses for marriages that began before 1990.

The major effects on elderly beneficiaries of the two earnings sharing plans and the various sets of transition provisions are illustrated as follows: First, the Generic and Modified plans are examined, based on implementation of each plan with Transition I (hereafter called Generic I and Modified I, respectively). Next, the effects of Transition II and Transition III are examined based on implementation of the Modified plan with these transitions (hereafter called Modified II and Modified III). Finally, the effects of Transition IV are examined by estimating the effects of implementing the Generic plan with this no-loser guarantee (Generic IV). A table comparing the average benefits that would be provided to each major elderly group is provided at the end of this chapter.

Total Costs

The extent to which current law benefits would be guaranteed is critical in determining the cost of implementing an earnings sharing plan. Estimates of the effects on total benefits that would be paid in 2030 under the five illustrative options, relative to benefits under current law, are reported in Table IV-3.

These estimates indicate the orders of magnitude of the relative costs associated with the various plans and transition provisions. The costs of each plan, relative to current law, would vary from one year to the next, generally increasing over time. For the elderly population, the Modified plan would provide more benefits than would the Generic plan with the same set of transition provisions. For example, Modified I would increase benefits paid to this group in 2030 by 2.6 percent, compared to 1.0 percent under Generic I--virtually identical to the corresponding estimates of the long-term costs reported above. In 2030, Transition II, by removing current law benefit guarantees much more rapidly than the other transitions, would provide the lowest benefits--under Modified II, the elderly would receive 1.5 percent lower benefits than they would under current law. Transition III would provide benefit guarantees that, on average, are slightly smaller than provided by Transition I; the main differences between the two transitions involve whose benefits would be most protected. Finally, the complete guarantee provided by Transition IV would be, by far, the most costly--Generic IV would add 4.1 percent to the benefits paid to elderly beneficiaries (relative to current law), compared to 1.0 percent under Generic I.

The cost estimates for the nonelderly beneficiaries largely reflect the effects the Generic and Modified plans would have on expanding coverage for disability benefits. The basic policy issue of whether full-time homemakers should be provided disability benefits is not addressed in this study.

TABLE IV-3. EFFECTS OF EARNINGS SHARING OPTIONS ON BENEFITS PAID TO ELDERLY AND NONELDERLY RECIPIENTS IN THE YEAR 2030 a/

Option	Percent Change in Benefits Paid in 2030 Relative to Current Law		
	Elderly b/	Nonelderly	Total
Generic I	1.0	8.3	1.6
Modified I	2.6	25.4	4.5
Modified II	-1.5	24.9	0.8
Modified III	2.0	24.8	4.0
Generic IV	4.1	22.3	5.7

SOURCE: Congressional Budget Office simulations.

a. See the text for descriptions of the options.

b. Defined as recipients age 62 or older.

As previously discussed, simulation of the number of disabled beneficiaries is especially problematic. The estimates of the benefit increases for the nonelderly population under Generic I and Modified I--8.3 percent and 25.4 percent, respectively--are similar to the corresponding estimates under the retrospective Generic and Modified plans. The only substantial effect of any of the transition provisions is that the no-loser guarantee illustrated by the Generic IV option would protect many nonelderly beneficiaries from losses in current law benefits, such as disabled workers who shared with a lower-earning spouse and members of families in which the high-earning spouse is deceased or disabled. 21/

21. Both groups would be protected by the Modified plan, but not by the Generic plan.